



BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

Arizona Corporation Commission

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IN THE MATTER OF AJO IMPROVEMENT)
COMPANY'S APPLICATION FOR)
APPROVAL OF THE 2009 RENEWABLE)
ENERGY STANDARD)
IMPLEMENTATION PLAN)

DOCKET NO. E-01025A-08-0332

DECISION NO. 70700

ORDER

Open Meeting
January 13 and 14, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Ajo Improvement Company ("Ajo") is certified to provide electricity as public service corporations in the state of Arizona.

2. On April 24, 2008, the Commission, in Decision No. 70304, granted approval of Ajo's 2008 Renewable Energy Standard Implementation Plan. On June 30, 2008, Ajo filed its 2009 Renewable Energy Standard Implementation ("REST") Plan ("2009 Plan") in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1801 through R14-2-1816. Ajo's Plan also includes a Plan to Procure Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources.

3. According to Ajo's 2008 REST Implementation Plan, its 2008 Annual Renewable Energy Requirement, pursuant to R14-2-1804, was between 221,700 kWh and 234,343 kWh. Ajo has indicated that since approval of its 2008 REST Implementation Plan it has procured a total of 374,000 renewable kWh. Ajo states that it is currently in negotiations with renewable generation

1 owners to supply Ajo with its 2009 REST requirements. In addition, Ajo has plans to issue a
2 Request for Proposal ("RFP") to assist in complying with the distributed and non-distributed
3 renewable requirements on a long-term basis. According to Ajo, it has not undertaken any
4 renewable projects in its service territory since the approval of its 2008 Implementation Plan. Ajo
5 has indicated that there has been no customer participation (residential or non-residential) in its
6 incentive program and has not made any incentive payments to customers for installing renewable
7 energy systems. Therefore, Ajo will not meet its 2008 REST distributed renewable energy
8 requirements pursuant to R14-2-1805.

9 **The 2009 REST Plan**

10 4. Ajo indicated in its 2009 Plan that it currently owns no generation and procures all
11 of its power from the wholesale market to meet load. According to Ajo, it serves approximately
12 1,028 customers (854 residential and 174 non-residential). Ajo stated that many of its residential
13 customers are retired or on fixed incomes. In addition, Ajo indicated that it does not anticipate
14 much customer growth between now and 2025. Therefore, the funds collected to meet the REST
15 rules will be limited primarily to existing customers.

16 5. The 2009 Plan also states that Ajo is currently uncertain of its ability to procure
17 wind generation. In addition, Ajo remains unsure of its ability to procure other eligible renewable
18 energy resources such as solar, geothermal, and/or biomass. Ajo anticipates that its Annual
19 Renewable Energy Requirement, pursuant to A.A.C. R14-2-1804, will be approximately 252,992
20 kWh for 2009. Ajo further anticipates that its Distributed Renewable Energy Requirement,
21 pursuant to A.A.C. R14-2-1805, will be approximately 37,948 kWh in 2009.

22 6. Ajo has indicated that it does not currently plan to undertake any Research and
23 Development ("R&D") as part of its 2009 REST Plan. However, Ajo does state that it will
24 consider participating in existing and future studies relating to renewable resource technologies to
25 benefit its customers.

26 **Distributed Renewable Energy Resources**

27 7. Ajo will continue to offer incentive payments to customers to install Distributed
28 Renewable Energy Resources, pursuant to A.A.C. R14-2-1809. Eligible projects listed in Ajo's

1 proposed 2009 Plan include: photovoltaic systems, solar space cooling, non-residential solar water
2 heating and space cooling, small domestic solar water heating, small domestic solar space heating,
3 biomass/biogas cooling, non residential solar daylight, and small wind generation. Ajo indicates in
4 its 2009 Plan that incentive payments will be up-front, one-time payments and will be determined
5 based on system capacity and/or estimated annual kWh production. The incentive amounts
6 specified conform to the amounts proposed by the Uniform Credit Purchase Program ("UCPP")
7 Working Group. Ajo stated, in its 2009 Plan, that the UCPP Working Group does not have up-
8 front incentives specified for the following technologies: biomass/biogas thermal, biomass/biogas
9 combined heat and power ("CHP"), fuel cell, geothermal-space heating and process heating, and
10 non-residential pool heating. Ajo's 2009 Plan specifies the requirements for eligibility and
11 installation of all the eligible projects.

12 8. Staff recognizes that because Ajo has had no customer participation in the Incentive
13 Program since the approval of its 2008 REST Plan, Ajo has been unable to meet the requirements
14 of R14-2-1805. Therefore, as part of its 2009 REST Plan, Staff believes Ajo should develop and
15 offer its customers a low-interest, three-year loan program for the eligible small residential solar
16 water heating systems. In addition, Staff believes the monthly loan payments made by a customer
17 should be lower than the monthly energy savings (in dollars) received by the customer, to be
18 economically feasible to the customer. The Company believes the loan program would be
19 burdensome to administer however, and proposes, in lieu of the loan program, increasing the per
20 kWh incentive from (1) \$0.75 per kWh to \$1.20 per kWh for years one through three; and (2) from
21 \$0.675 per kWh to \$1.125 per kWh for years four and five.

22 9. Staff believes that Ajo should offer increased incentives rates for photovoltaic
23 systems to make them more economically feasible for Ajo's customers. Staff believes that the
24 following incentives could encourage customer participation in Ajo's Incentive Program:
25 \$4.00/watt for residential photovoltaic systems and \$3.50/watt for non-residential photovoltaic
26 systems. These incentives would replace the current \$3.00/watt incentive for residential
27 photovoltaic systems and \$2.50/watt incentive for non-residential photovoltaic systems.

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1 10. Staff recommends that, if the Commission approves a UCPP, Ajo should be
2 required to develop a mechanism to incorporate UCPP procedures and incentive levels for all
3 eligible technologies in its proposed REST Plans for later years. To the extent that Ajo believes
4 that different incentive levels, other than those specified by UCPP, are justified, particularly in
5 remote, rural areas, Ajo could develop such proposals.

6 11. The 2009 Plan also specifies that funds for any customer project will not exceed 60
7 percent of the total cost of the project with a maximum of \$11,000 being provided for any project.
8 Incentive payments will continue to be distributed on a first-come, first-served basis and Ajo
9 intends to continue dividing incentive payments evenly between residential and non-residential
10 applicants.

11 12. Ajo states that it will consider establishing its own distributed renewable energy
12 generation for its own operations to assist in meeting its Distributed Renewable Energy
13 Requirement, if needed. Eligibility requirements for participation and installation specifications
14 are defined in Ajo's 2009 Plan.

15 13. Ajo's 2009 Plan contains a section that describes Distributed Renewable Energy
16 System Program Monitoring. This section specifies that Ajo will continue to report the progress
17 and productivity for all distributed renewable energy systems annually by reporting on the total
18 installed capacity and projected productivity. Ajo also included in this section a statement that
19 indicates if a renewable system is removed or left in disrepair, Ajo will continue to reflect, in the
20 annual compliance reports, the annual historic energy production for the system until the
21 agreement term for the system has been completed. Staff notes that Ajo could additionally report
22 lost kW capacity and forgone kWh that result from removed or inoperable renewable generation
23 systems, describing them as such.

24 **Budget**

25 14. Ajo states that it can collect a maximum of \$92,192.40 from the REST surcharge.
26 However, Ajo does not anticipate that all of its customers will use the required amount of kWh to
27 charge the maximum surcharge. Therefore, Ajo anticipates that it will most likely collect
28 \$49,033.44 from the REST surcharge in 2009.

15. The following table shows the estimated REST funds that would be collected in 2009 from each Customer Class if Ajo were to collect the maximum of \$92,192.40 from the REST surcharge:

Customer Class	Total \$	% Reaching Cap	% of Total
Residential	\$10,760.40	100%	12%
Non-Residential	\$81,432.00	47.46%	88%
Non-Residential (>3MW)	\$0.00	N/A	0%
Total	\$92,192.40	-	-

16. The following table shows the estimated REST funds that would be collected in 2009 from each Customer Class based on the \$49,033.44 that Ajo anticipates it will most likely collect from the REST surcharge:

Customer Class	Total \$	% Reaching Cap	% of Total
Residential	\$10,760.40	100%	22%
Non-Residential	\$38,273.04	47.46%	78%
Non-Residential (>3MW)	\$0.00	N/A	0%
Totals	\$49,033.44	-	-

17. The following table indicates the estimated REST budget needed in order to meet the REST requirements for 2009:

Category	\$ Amount of Total Budget
Renewable Energy Resources	\$23,698
Energy Power Purchase Agreements (wind resources)	\$10,322
Energy Power Purchase Agreements (other eligible renewable resources)	\$0
Utility-Owned Systems	\$0
Administration, Implementation, Commercialization & Integration	\$13,376
Distributed Renewable Energy Resources	\$38,555
Incentives	\$28,885
Customer Self-directed Renewable Energy Option	\$0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration	\$9,670
Total	\$62,253

1 18. The total funds Ajo anticipates it would most likely collect from its customers are
2 \$49,033.44. There is a difference of approximately \$13,219 between the 2009 Ajo Budget of
3 \$62,253 and what Ajo anticipates it would most likely collect from its customers. Ajo states that
4 since the approval of its 2008 Implementation Plan on April 24, 2008, it has collected
5 approximately \$13,034 (from April to October). Ajo anticipates collecting a total of \$16,759 by
6 the end of 2008. In addition, Ajo currently has a balance of approximately \$31,610 from the
7 previous EPS plan. Ajo has indicated that it expects much of the \$31,610 balance to be carried-
8 over to 2009.

9 **Tariffs**

10 19. Ajo has indicated that the Applications for Distributed Renewable Energy
11 Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and
12 Renewable Energy Standard Surcharge Schedule tariff on file with the Commission in
13 combination with funds carried over from previous years would be adequate to fund the 2009 Plan.
14 Therefore, Ajo would not be filing new tariffs in conjunction with the Ajo 2009 REST Plan.

15 **Other**

16 20. On October 23, 2008, in Decision No. 70567, the Commission adopted the Net
17 Metering Rules. Although these rules have been adopted by the Commission, they have not yet
18 become effective. The Net Metering Rules adopted by the Commission define a net metering
19 customer in A.A.C. R14-2-2302(12) as "any Arizona Customer who chooses to take electric
20 service in the manner described in the definition of Net Metering..." The Net Metering Rules
21 make no provision for the exclusion of any customer having received an incentive payment from
22 receiving energy payments under a net metering tariff.

23 21. Staff notes that while the Commission's approval of the Net Metering Rules
24 requires further action, such as endorsement by the Arizona Attorney, General prior to becoming
25 effective, it would not be in the public interest to permit Ajo to prohibit customers from receiving
26 both incentive payments and energy payments. It was never the Commission's intention that a Net
27 Metering customer under the Net Metering Rules be precluded from obtaining incentive payments
28 under the REST rules.

Staff Recommendations

22. Staff has recommended that Ajo's proposed 2009 Renewable Energy Standard Implementation Plan be approved, as specified herein.

23. Staff has recommended that Ajo develop a low-interest, three-year loan program for participating customers in the Incentive Program for residential solar water heating systems and that no later than 90 days after a decision in this matter, Ajo be required to file the loan program for Commission approval, in a separate docket. However, Ajo is concerned that it lacks the size and the ability to administrate such a loan program. Consequently, in lieu of the loan program, Ajo will increase the incentives for residential solar hot water heaters to \$1.20 per kWh for the kWh saved in the first year.

24. Staff has recommended that Ajo offer increased incentive rates, as specified herein, for eligible distributed renewable energy resource projects installed on customer premises.

25. In addition, Staff has recommended that Ajo not require customers to elect to receive either an incentive payment or an energy payment, and instead provide both credits and payments to customers participating in its Incentive Program, as contemplated in the Net Metering Rules. This will make Ajo's Incentive Program compatible with the Net Metering Rules adopted by the Commission in Decision No. 70567 on October 28, 2008.

26. Staff has further recommended that Ajo amend its Distributed Energy Program literature and Enrollment Form to be consistent with this Decision and in a form acceptable to Staff.

27. Staff has further recommended that Ajo's Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff, currently on file with the Commission, remain in effect until further Order of the Commission.

CONCLUSIONS OF LAW

1. Ajo Improvement Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

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2. The Commission has jurisdiction over Ajo Improvement Company and over the subject matter of the Application.

3. The Commission, having reviewed the application and Staff's Memorandum dated December 31, 2008, concludes that it is in the public interest to approve the Ajo 2009 REST Plan as specified in this order.

ORDER

IT IS THEREFORE ORDERED that the Ajo Improvement Company 2009 REST Plan is approved as specified herein.

IT IS FURTHER ORDERED that Ajo Improvement Company raise the incentives for residential solar hot water heaters in its 2009 REST Plan to \$1.20 per kWh for the kWh saved in the first year.

IT IS FURTHER ORDERED that Ajo Improvement Company offer increased incentive rates, as specified herein, for eligible distributed renewable energy resource projects installed on customer premises.

IT IS FURTHER ORDERED that Ajo Improvement Company not require customers to elect to receive either an incentive payment or an alternative, energy payment, and instead provide both credits and payments to customers participating in its Incentive Program, as contemplated in the Net Metering Rules. This will make Ajo Improvement Company's Incentive Program compatible with the Net Metering Rules adopted by the Commission in Decision No. 70567 on October 28, 2008.

IT IS FURTHER ORDERED that Ajo Improvement Company amend its Distributed Energy Program literature and Enrollment Form to be consistent with this decision and in a form acceptable to Staff.

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IT IS FURTHER ORDERED that Ajo Improvement Company's Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff, currently on file with the Commission, remain in effect until further Order of the Commission.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

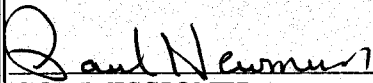
BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION



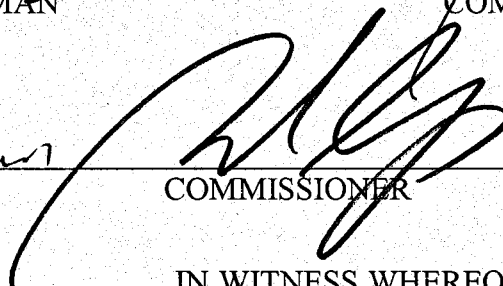
CHAIRMAN



COMMISSIONER



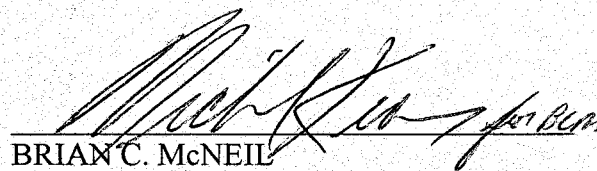
COMMISSIONER



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IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 20th day of JAN, 2009.



BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT: 

DISSENT: _____

EGJ:CLA:lh\WVC

1 SERVICE LIST FOR: Ajo Improvement Company
2 DOCKET NO. E-01025A-08-0332

3 Mr. Jason D. Gellman
4 ROSHKA DEWULF & PATTEN, PLC
5 One Arizona Center
6 400 East Van Buren, Suite 800
7 Phoenix, Arizona 85004

8 Mr. Ernest G. Johnson
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007
18
19
20
21
22
23
24
25
26
27
28